



MINUTES

Property Taxation Review Committee

November 10, 2004

MEMBERS PRESENT:

Senator Bryan Sievers,
Cochairperson
Senator Herman Quirmbach
Larry Countryman
R. Kim Dreher
Cynthia Eisenhauer (nonvoting)
Dale Hyman
Tim McGee

Members Absent:
Senator Pat Ward
Tom Jarrett
Mike Ralston (nonvoting)

Representative Jim Kurtenbach,
Cochairperson
Representative Don Shultz
Representative Doug Struyk
Curtis Rouse
Jerry Shepler
Larry Sigel
Ted Tedesco
Grant Veeder

MEETING IN BRIEF

.....

Organizational staffing provided
by: Susan Crowley, Senior Legal
Counsel,
(515) 281-3430

Minutes prepared by: Mike
Goedert, Senior Legal Counsel,
(515) 281-3922

- I. Procedural Business.
- II. Iowa League of Cities/Iowa State Association of Counties Property Tax Reform Proposal.
- III. Discussion – Subcommittees – Next Meetings.
- IV. Materials Filed With the Legislative Services Agency.



Property Taxation Review Committee

I. Procedural Business.

Call to Order. The third meeting of the Property Taxation Review Committee was called to order by Cochairperson Sievers at 2:08 p.m. on Wednesday, November 10, 2004, in Room 118 of the State Capitol in Des Moines, Iowa.

Approval of Minutes. Mayor Tedesco moved the minutes of the September 28, 2004, meeting. The motion was seconded and adopted by voice vote.

Proposed Rules. Cochairperson Kurtenbach asked for and received a deferral on consideration of the proposed rules. Senator Quirmbach expressed his disapproval of item 2 of the proposed rules, which provides that no recommendations may be made to the General Assembly without the affirmative vote of two members from each house. His disapproval was with the fact that such rule gives two members the veto over the work of the 18-member Committee and because of the makeup of the legislative members, the rule gives one party this power. Senator Quirmbach noted that this proposed rule is not a guideline set out in the Legislative Council's Guidelines for Interim Committees.

Adjournment. The Committee was adjourned at 6:12 p.m.

II. Iowa League of Cities/Iowa State Association of Counties Property Tax Reform Proposal.

Ms. Susan Judkins, Director of Governmental Affairs, Iowa League of Cities, and Mr. Jay Syverson, Fiscal Analyst, Iowa Association of Counties (ISAC), presented the property tax reform proposal jointly developed by the League of Cities and ISAC. Mr. Paul Pate, Mayor of Cedar Rapids, provided an introduction. He described the reform proposal as providing accountability of, limits on, and consistency from local governments. In addition, the proposal allows for better community planning and service delivery to taxpayers. Finally, he stated that the proposal creates a 21st century tax system for a 21st century economy.

Mr. Syverson discussed the property tax reform proposal with the Committee. The proposal is made up of three sections: assessment and valuation, budgeting and taxation, and constraints and limitations.

Assessment and Valuation. The assessment and valuation section is designed to expand the tax base and decrease the tax rate. This is to be done by the following:

- Eliminating all rollbacks and assessment limitations.
- Changing the homestead credit to a homestead exemption equal to 50 percent of the value with a ceiling of \$150,000 and a minimum of \$10,000.
- Allowing for multiclassification of property.
- Changing the productivity formula to cover 10 years of production data and assess agricultural buildings and other structures on farmland at market value.
- Government property used for public purposes will remain nontaxable, but privately owned properties deemed exempt by the Legislature would only have their improvements exempted. In lieu of collecting tax on the land, a public safety fee may be



imposed by cities. The rule of thumb is that 20 percent of value is attributed to land which is estimated to be \$23 million of potential taxes to offset reductions elsewhere. All exemptions would expire after four years.

- The square foot tax currently charged to manufactured homeowners is replaced with an occupied lot surcharge imposed against the landowner of a manufactured housing community.
- Platted lands would have an assessment freeze which expires after six years or upon improvement of the property, whichever occurs first.
- Changing assessment procedures so that on-site inspections of every property are done at least once every year; equalization orders will be applied prospectively; cable television property would be centrally assessed; all filings for exemptions would be due by April 1, except for homestead and charitable property, which would be due by July 1; and standardization of definition of agricultural property and farm building assessments.

Budgeting and Taxation. The budgeting and taxation section proposed requiring the use of standard budget publication and notice of hearing forms. The forms would show changes in valuations, expenditures, revenues, rates, and equalization orders. In addition, it is proposed that the military credit and exemption revert to a refundable income tax credit, the low-income elderly and disabled credit would revert to a direct state reimbursement to the taxpayer, and the agricultural land credit would be eliminated and the amount of the standing limited appropriation transferred to the family farm credit. Also, unfunded mandate language would be strengthened to relieve the city or county from complying if insufficient funding or levy authority is not also provided.

Constraints and Limitations. The constraints and limitations section addressed the proposal that a tax revenue limitation replace assessment and levy rate limits. The levy rates replaced are for the city general fund of \$8.10 and the county general basic fund of \$3.50 and rural basic fund of \$3.95. A base year calculation would be done for the fiscal year beginning July 1, 2005, or July 1, 2006. The calculation would equal the greater of the amount of taxes raised or the amount that could have been raised by the appropriate levy. Next, an inflation factor would be applied to the previous year's amount. This amount would be adjusted by adding the product of net new valuation times the previous year's tax rate and then adding any unused levy capacity from the previous year. This limitation could be exceeded by conducting a public hearing but with a requirement for a reverse referendum if the limitation is to be exceeded by more than 3 percent.

Fiscal Offsets. Ms. Judkins then provided the Committee with a summary of the fiscal offsets of the property tax reform proposal. She commented that changes to the rollback and credits will prevent further shifting of the tax burden onto commercial properties, relieve the state from funding the homestead tax credit, provide homeowners with a 50 percent exemption on their primary residence, and assign direct administration of other credits to the state. In addition, she noted that the new property tax revenue limits would provide clarity to taxpayers, flexibility to meet citizens' needs, and would encourage conservative budgeting because unused levy capacity is carried forward. More equitable distribution of the tax burden among agricultural property, exempt property, and certain residential property should occur, she said. A pie chart comparing FY 1972-1973 to FY 2003-2004 was shown that indicated a shift in taxes from agricultural and personal property to residential and commercial property. Ms. Judkins pointed out that more clarity in the



Property Taxation Review Committee

process would exist because of the improved budget process, prospective equalization orders, state accountability, and improvement in assessment procedures.

Discussion. Senator Quirnbach commented that a shift is to be expected over time. Ms. Judkins agreed by stating that it does not explain the total shift. She explained to Representative Shultz that the four-year sunset of exemptions was added so that the Legislature would have to reconsider these.

Mr. Shepler expressed his concern with changing the agricultural productivity formula to consider 10 years instead of five years and whether it is possible to have two types of assessment, one for land and one for buildings, within one class of property. Ms. Judkins' response was that they are willing to look at the effect of the change from five years to 10 years and that farm property has two types of assessments now, with farmhouses designated as rural residential.

Mr. Countryman had a question on the effect of the \$150,000 limit on the homestead exemption in border areas. Mayor Pate stated that the figure was chosen to be as revenue-neutral as possible. He also noted that the average value is not even close to \$300,000.

Senator Quirnbach related that the current system allows increases in taxes on the inflation of existing property or due to improvements while the reform proposal just allows tax dollar amounts to be raised by an inflation factor.

Mr. Sigel informed the Committee that because of the increase in valuation under the proposal, school property taxes will rise and state school aid will fall. Mr. Syverson suggested that the \$5.40 uniform levy could be reduced.

Representative Shultz queried Mr. Hyman on the value of the land for exempt property in Des Moines. Mr. Hyman's estimate was \$600,000 or more per acre.

Senator Quirnbach expressed his concern that the increase in valuation for some rental property will have an adverse effect on low-income persons. Mr. Hyman agreed and added that people are trying to remedy the situation of this shift to commercial property, which includes certain rental property.

III. Discussion — Subcommittees — Next Meetings.

Discussion. Cochairperson Kurtenbach began discussion of the paper distributed last meeting entitled "Objectives of a Property Tax System." Mr. Veeder sought clarification on item number 2, relating to equitable taxation. The Committee discussed and made amendments to item number 2. The objectives, as amended, are:

- Reliable and predictable revenue source for local government.
- Taxation within a class of property must be equitable.
- Taxation across classes of property must be based upon economic value and be equitable and consistent statewide.
- Simple system and transparent to the taxpayer.
- Responsive to changes in valuation and classification.
- Foster economic growth.



Cochairperson Kurtenbach suggested that items that need to be considered are (1) difficulties with commercial property taxation; (2) disparities of levies associated with education funding; (3) funding of credits and exemptions and the state's ability and history of providing the funding; (4) classification of property, including apartments and manufactured housing; and (5) a levy or tax limitation. He suggested that each of these five items be addressed as part of a plan. Cochairperson Kurtenbach agreed with Cochairperson Sievers that the state property assessment appeal board proposal should be considered separately by the Committee.

Mr. Countryman queried whether the Committee should recommend something that can be enacted or something that the members agree needs to be done. Representative Kurtenbach responded that political realities need to be a consideration of the Committee. Mr. Hyman stated that taxpayers are definitely dissatisfied about property taxes. He wondered, however, how anyone could sell the ISAC/League of Cities property tax reform proposal if it shifts taxes to residential property taxpayers. Mayor Tedesco reminded the members that over the years the only changes to the property tax system were band-aid-type changes. Representative Shoultz pointed out that, from information staff had compiled, the percent of income that equals property tax liability has decreased over the last number of years. Mr. Sigel agreed, stating that one has to look at the fact that, though property taxes have increased, so has income.

Cochairperson Kurtenbach stated that if another source of funding for schools is found, in lieu of property taxes, then property taxes would be reduced, which would allow for the decoupling of agricultural and residential property assessment limitations. Senator Quirmbach said that the Committee should stay focused on property taxes. He stated further that a sales tax increase makes Iowa less competitive with neighboring states, does not equitably spread the tax burden, and results in money going to the federal government because the amount of sales tax paid by a taxpayer is not deductible in determining a taxpayer's federal taxable income. Mr. Sigel commented that property taxpayers do not like the fact that someone in the next jurisdiction is paying less, especially when it comes to K-12 school property taxes. He specified that the stability of the property tax is a benefit to school funding, and he does not want to give this up unless there is a guarantee of continued stability of funding. He added that if we consider schools good and each child as worthy as another, we should eliminate the property tax variance between school districts. Mr. McGee stated that any property tax proposal recommended by the Committee must deal with education funding and the levy rate disparity between districts.

Mr. Countryman commented that commercial property effective tax rates are increasing at a faster rate than the other classes of property. From a business standpoint, he said, replacing property taxes with sales taxes would be a benefit because businesses can pass on the sales tax to customers. Mr. Countryman noted that South Dakota's commercial property tax rates are \$15 to \$20 per \$1,000 less than what he pays in Iowa. Representative Struyk added that there is the same kind of disparity between Omaha and Council Bluffs. Mr. Sigel emphatically stated that though the rate of property tax on commercial property is twice that of residential, he has seen no evidence to indicate a shift in property tax burden caused by the assessment limitation.

Mr. Dreher stated that there is not talk of a reduction in property taxes on multifamily housing. If something is not done, he said, we will start to see devaluation of commercial property because the charges on the property are close to equaling the net gain an owner can get for leasing the



Property Taxation Review Committee

property. Property taxes are too high and that is what the Committee needs to focus on, he said. Mr. Hyman noted that newer apartments are being classified as residential and thus are better off in terms of property tax burden than older apartment buildings. Senator Quirmbach hailed this as an example of the question of equity within and across classifications.

Mayor Tedesco reminded the members that under the ISAC/League of Cities proposal, the need for the state to reimburse for homestead credits is eliminated by providing for a homestead exemption. This frees up \$100 million of state money that can be used for property tax relief, he said. Mr. Sigel suggested that the qualifications for the homestead credit be used for the residential exemption because that is really what is being discussed under the ISAC/League of Cities proposal, he said. Mr. Dreher pointed out that not all single-family housing is owner-occupied and that is what the current homestead credit requires. If the assessment limitation (rollback) is repealed, he said, and the residential exemption based on owner occupancy is enacted, taxes on single-family housing that is not owner-occupied would increase.

Subcommittees. After much discussion, the Committee decided to split into three subcommittees. The first subcommittee will study and report on the property tax reform proposal submitted by ISAC and the League of Cities. The second subcommittee will study and report on the document distributed at the second meeting entitled "Options for Iowa Tax Overhaul." The third subcommittee will study and report on various other issues, including creation of a property assessment appeal board on the state level and other administrative matters.

Members of the three subcommittees are as follows:

First

Senator Sievers
Senator Quirmbach
Mr. McGee
Mr. Ralston
Mr. Rouse
Mr. Shepler
Mr. Sigel
Mayor Tedesco
Mr. Veeder

Second

Representative Kurtenbach
Representative Shultz
Mr. Countryman
Mr. Dreher
Mr. Hyman
Mr. Shepler
Mr. Sigel
Mayor Tedesco

Third

Senator Ward
Representative Struyk
Mr. Dreher
Ms. Eisenhauer
Mr. Hyman
Mr. Jarrett
Mr. Ralston
Mr. Rouse

Next Meetings. The fourth meeting of the Property Taxation Review Committee is scheduled for Wednesday, December 15, 2004, from 9 a.m. to 1 p.m. The fifth and last meeting of the Committee is scheduled for Wednesday, January 5, 2005, from 10 a.m. to 2 p.m.

IV. Materials Filed With the Legislative Services Agency.

The following list of materials and handouts was made available to the members of the Committee. The materials are on file with the Legislative Services Agency and may be accessed on the Internet at: <http://4.legis.state.ia.us/aspx/Internet/Committees/Interim/PropertyTax.htm>.

1. Property Tax Reform Proposal – Iowa State Association of Counties and Iowa League of Cities.



2. Property Tax Reform Proposal PowerPoint Outline – Iowa State Association of Counties and Iowa League of Cities.
3. Highlights of Property Tax Reform Proposal – Iowa State Association of Counties and Iowa League of Cities.
4. Major Points in the ISAC/League Property Tax Reform Proposal – Iowa State Association of Counties and Iowa League of Cities.
5. Comparisons of the ISAC/League Property Tax Reform Proposal to Current Law – Iowa State Association of Counties and Iowa League of Cities.
6. ISAC/League Property Tax Reform Proposal Fiscal Impact Estimate – Iowa State Association of Counties and Iowa League of Cities.

3510IC